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YOUR FARM REPORTER AT WASHINGTON.

Thursday, January 2, 1929.

Cooperation Interview 16: Steps in the Organization of A Cooperative Association.

Speaking Time: 9 Minutes.

Not For Publication

ANNOUNCEMENT: Well, it looks as if a lot of farmers' cooperative associations may be formed this year. Big things seem to be getting under way in co-op marketing. For that reason, we asked your farm reporter at Washington to get The Federal Farm Board to outline to us just what are the steps in the organization of a cooperative association ----- Well, Mr. Reporter, step on it -----

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"What are the steps to take to organize a co-op?"

That is just what I asked Mr. Hutzler Metzger, assistant chief of the division of cooperative marketing of the Federal Farm Board.

As Mr. Metzger explains it, the first step in organizing a co-op is not a step at all; it is a 'look before you leap.' Before rushing into the organization of a farmers' association, he pointed out it is best to look around and see if there are any services a co-op could perform that are not being performed already by some other market agency in the field. Just because farmers over in the next county have organized is no proof that conditions in your neighborhood demand a co-op.

But, in case you do find a real need that a co-op can fill, the next thing Mr. Metzger advises you to find out is how much volume it will take for an association to operate efficiently and keep the costs down low enough to compete with other marketing agencies now handling the stuff in your territory.

Once you know how much your co-op will need, the next question to ask yourself is: "Is it here?" Is there big enough volume of the commodity available in your territory? You can't decide that merely on gas station gossip. To answer that question, you will need to make a survey of your territory, Mr. Metzger suggests, to find not only whether there is actually enough produced around about to supply the needed volume, but whether there are enough people interested in an association to assure your co-op getting that needed volume.

It is pretty poor practice, Mr. Metzger says, to start a co-op and figure that the volume will come, after your organization gets under way. That, he suggests, is like a woman marrying a man to reform him. More often than not, it doesn't work that way.



It is also a good idea to consider that your organization probably won't get all the volume in its territory. The other fellow will get a share. The other marketing agencies now handling that commodity will probably continue to hold some of the business.

But, if you have made a careful survey, and find enough volume can probably be obtained by your organization, you are ready to consider the actual organization of your co-op.

Mr. Metzger points out that the co-op should always be incorporated. Most states have a special cooperative marketing law and in such cases, your association should be incorporated under that law.

But before proceeding to the incorporation, you will want to decide whether it shall be a stock association or a non-stock association. Many farmers have heretofore favored the non-stock, non-profit type of organization. However, Mr. Metzger says there is no objection to a stock association, so long as the control is kept in the hands of the farmers, either by sticking to the one-member-one-vote plan or the limited-dividend principle.

In fact, he holds that the stock company form of organization has some decided advantages, especially in the first financing of the co-op. Of course, that is not so important with a local live-stock shipping association or other organization where very little equipment is needed to start with. But where equipment must be bought or a plant built considerable money is needed to get the co-op going. In such a case, the stock form of organization is better adapted. The capital needed can be raised by sale of stock to the members.

The stock may be either paid for in full, or may be sold on the part payment plan. That is, the member may be allowed to pay part down and the balance may be paid by deductions from sales of the member's product later sold through the association. That, too, depends a lot on the kind of product being handled and local conditions among the farmers.

Mr. Metzger also suggests that the articles of incorporation should be made broad enough to let the co-op perform any of the services it will be likely to want to perform. The by-laws should be so drawn that the association is absolutely under the control of the producing members yet delegate enough power to the Board of Directors and the Executive Committee for the efficient conduct of the business.

---- Well, you see there are a good many fine points about starting a co-op. I was afraid mentioning these things might scare some of my friends who have been thinking about organizing, until Mr. Metzger told me that you can get help from the local and State extension services and from the division of cooperative marketing, of the Federal Farm Board. They will help in making surveys and in drawing up the by-laws and articles of incorporation and seeing that the association is so organized it meets the requirements of the Capper-Volstead Law, so as to be able to qualify for loans from the Federal Farm Board, if need be.





One of the big reasons many co-ops have gone on the rocks is because they have been organized on the fair-weather idea. They had enough capital to run as long as things went along smoothly, but they were not prepared for rough weather.

Mr. Metzger points out that in associations where a sales commission is charged by the co-op or where there are any service charges, they should not only be big enough to take care of the current expenses, but they should also provide for setting aside a substantial reserve to take care of any contingency which might arise.

However, after you have provided for these things and incorporated your association, you are ready to go out and sign up members. The association may or may not have a contract with the member; but the general opinion seems to be that some sort of contract is desirable. In most cases, it seems that the contract should be continuous, with the member given the right of withdrawal at a certain time each year.

The original incorporators ordinarily constitute the first board of directors and serve until new directors are elected. In addition to securing enough members to provide the volume of business needed, one of the first and most important duties before the co-op directors is to select a capable manager.

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ANNOUNCEMENT: Your farm reporter at Washington has reported to you the steps in the organization of a cooperative association as outlined to him by Mr. Hutzler Metzger, assistant chief of the division of cooperative marketing of the Federal Farm Board. This talk is one of a series presented by Station \_\_\_\_\_ in cooperation with the Federal Farm Board and the United States Department of Agriculture.





Apparently Psychology and habit have played a part in determining the big markets for our products. Wisconsin offers another example. It is one of the important butter-producing states. Yet it contributes only about 7 per cent of the total butter shipped to New York. Most of the Wisconsin butter goes to Chicago. Wisconsin dairy folks have always considered Chicago as their market.

Of course there are good reasons for this. Chicago is convenient to Wisconsin. And Wisconsin is a convenient place for Chicago wholesalers to buy butter. Incidentally, that suggests one good reason why New York has been a better market than Chicago for several middle-western states.

Let's examine a few figures. Take four big butter markets--New York, Chicago, Philadelphia and Boston. Minnesota has built up a good market for its product at each one--the distribution is fairly even. In round numbers 45 million pounds went to New York in 1928, 50 million pounds went to Chicago, 54 million pounds to Philadelphia, and 34 million pounds to Boston.

Iowa, on the other hand, shipped 69 million pounds to New York, 40 million to Chicago and only 5 million and 4 million pounds to Philadelphia and Boston, respectively. More than half of the Iowa butter received at these four markets went to New York.

As to Wisconsin butter, 58 million pounds went to Chicago, 15 million pounds to New York, 3 million pounds to Philadelphia and 2 million pounds to Boston.

If you will look over the figures in the summaries of dairy statistics issued by the Bureau of Agricultural Economics, you'll find all sorts of interesting questions to think about. And they are not only interesting, they're very important questions. Nowadays, where our products are marketed and how they are marketed are matters of vital importance. They affect our net income to an extent that many of us probably don't realize. And so, as Mr. Davis pointed out, it becomes increasingly necessary for producers--including dairy farmers, creamerymen, and other dairy manufacturers--to keep up-to-date on what's happening.

Are there new markets to be developed? Minnesota producers have successfully done that. Are there opportunities in the older markets for high-quality products? Iowa producers grasped the opportunity opened on the New York market when Minnesota began to develop other outlets. There are countless instances of this kind. On the Pacific coast, and in many sections of the South--growing dairy regions--producers are confronting problems of this kind.

Let's take a little different case. Distance doesn't mean so much any more. For instance, consider the long-distance shipping of cream. This development has brought a big change. The figures for 1928 show that Iowa shipped more than 23,000 cans (10 galls each) of cream to New York and adjoining markets. Wisconsin shipped more than 16,000 cans, Minnesota and Ohio more than 11,000, Indiana and Tennessee more than 7,000.

This means that producers in the eastern states, in the New York territory, have to meet strong outside competition. They want to know how much cream is coming in from the middle west, and where it is coming from.

So there is a growing demand all over the country for the timely information that the Bureau of Agricultural Economics furnishes in its market news services.



On the Pacific coast a new weekly production report has recently been undertaken which, will show the trend of dairy production in the seven Pacific coast states. Pacific coast cities are now having to reach out over a wider territory for their supply of butter. These weekly reports will enable both the buyer on the coast, and producer in Montana or Idaho, to keep in close touch with the state of demand and supply. They will enable the creameryman to regulate and direct his marketing. And, as the creameryman there is the marketing agency for the farmer, it helps the individual dairyman.

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ANNOUNCEMENT: YOUR FARM REPORTER has just told you about his interview with Mr. L. M. Davis, of the Department of Agriculture, on changes in marketing of dairy products. He'll be back next Friday at this time, with an interview on the question "Environment vs Heredity," as it affects the dairy business.

